

September 13, 1954

Confidential

Governor Harold E. Stassen, Director
Foreign Operations Administration
Washington 25, D.C.

Dear Governor Stassen:

In order to save you reading the entire attached memorandum which I have written on the Italian situation, I will summarize the main points.

1. Until the Christian Democratic Party is able to strengthen its political position by increasing the majority in the Parliament the Cabinet will continue to be in a weak position.
 2. The C. D. Party is in the process of developing a year round program modeled somewhat along the lines of the Communist political organization.
 3. The political and economic situations must be treated as one.
 4. The over-all economic program is now so closely tied to the political situation that all economic measures are primarily directed to combat the growth of Communism and are not based on sound financial planning.
 5. The proposed plan to create jobs for four million people in the next ten years is a political move with the hope of enlisting loans from O.E.E.C. countries plus a more equitable tax levy.
 6. Foreign private capital will not come into the country until:
 - a. The threat of Communism is checked.
 - b. The Government shows its desire to encourage foreign capital

State Dept. review completed

DOCUMENT NO. 14
NO CHANGE IN CLASS.
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CLASS. CHANGED TO: S B
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AUTH: ME 14
DATE: 14 REVIEWER: ME
2013-2000-14000-20015-2

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Governor Harold E. Stassen

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- c. The mechanics of doing business is remodeled and modernized which includes the commercial banking system.
- d. The relationship between capital and labor improved.
- e. Make it possible to develop the oil resources on a mutually advantageous joint venture basis.
- 7. The crux of the growth of Communism is in the South, in the North the situation is static.
- 8. Our aid is in a large part responsible for the economic improvement of Italy but the vast majority of the people have no knowledge of the role the United States has played in this improvement.
- 9. The entire F.O.A. program in Italy should be re-evaluated and more especially our productivity program.
- 10. The attitude of our Government towards the Italian Government and Free Trades Unions should have a more reassuring note in their ultimate victory over the Communists. The Italian Government and people have lost faith in our leadership.
- 11. The C. D. Party is the only political organization that is in a position to combat the growth of Communism in the South and we must make every effort to strengthen their hand morally and financially.
- 12. The ultimate victory of the C. D. Party over the Communists threat to Italy is not a hopeless one.

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I have purposely left out many questions which are germane to the entire Italian situation. Likewise I have not mentioned the Mission staff problems which are very real. I should be delighted to meet with you and any members of your staff in order to answer any further questions.

Looking forward to seeing you in the very near future and thanking you and your organization for having made this report possible, I remain,

Sincerely yours,

Paul Felix Warburg
Paul Felix Warburg

EXECUTIVE SECRETARIAT
112° HQ US > 41932
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It is important to keep in mind that the Christian Democratic Party is a coalition party. Its slim majority has made a strong anti-Communist program politically precarious. So far the main political weapon used by the Government has been the setting up of agencies to finance large public works, road building, land reforms etc., in order to alleviate the grave unemployment problem and improve living conditions. These programs have been too slow in getting under way and the Italian people have not been fully informed on the tremendous job their Government has done. The Communists have taken advantage of this fact and made political capital at the expense of the C. D. Party.

Amintore Fanfani, Secretary General of the C. D. Party has just ordered the Deputy Secretary General, Mario Rumor, to rebuild the Party along the lines of the Communist Party machinery. The program will be focused on the South for here lies the crux of the Italian problem. I spent several hours with Mr. Rumor and it is my impression that at long last the Party leaders are on the right track for until now no attempt has been made to build a year round Party organization. If plans work out according to schedule it is hoped that a general election will be held in the spring of 1956 at which time they hope to have gained sufficient strength to be returned to power with a much larger majority. Unless the political situation becomes static the economic situation will not improve. I have reasons to believe that this new program will succeed.

It is impossible to evaluate the economic situation separately from the political situation for no move has been made by the Christian Democratic Party in the field of economics without keeping in mind its national political significance.

The cash budget for the fiscal year '53-'54 will probably show a deficit of about five hundred billion Lira. The '54-'55 budget is still unknown. The balance of payments to E.P.U. is still way out of balance. So that the financial picture from a cash point of view is not particularly good, notwithstanding the improvement of the living standards and wage standards. The Government has resisted inflation but the tendency is beginning to move towards a less rigid attitude. At this coming Parliamentary session this fall a more comprehensive tax program will be introduced. At the moment only 15% of the total taxes raised is by direct taxation. The Government's position as to its further program on land reforms is not clear and for that reason private land owners have not in the past three years improved their property or bought new farm equipment for fear of expropriation. The trend of the Government's thinking for the moment is towards nationalization, it is not moving in the direction of turning over its vast holdings direct or indirect to private ownership.

The Government discussing a ten year program with a goal of employing an additional four million people is purely academic at this time, for the money needed for such a program is based on loans from the O.E.E.C., additional taxes, expanded tourist business etc. But this program is really a political question for the big problem is will this Government remain in power long enough to see the program through. I do not believe it will be necessary to advance additional large sums of money to Italy. If they wish to embark on a ten year program to alleviate unemployment and improve living conditions it must be financed by loans coming from the O.E.E.C. and additional taxes.

The theory of encouraging American private capital to loan, invest or give technical assistance in turn for participation in the profits in small or medium size companies is a good idea but the Government will first have to change laws, prove that they want this and above all show a more dynamic program of defeating their arch rivals the Communists.

The question of liberalizing their position in regards to foreign private corporations to explore and develop the oil resources is very questionable. Mr. Henrique Methei head of the Government owned oil and gas holding company is strongly opposed to allowing foreign capital to exploit the oil and gas in the ground. However, there are other members of the C. D. Party who are hopeful that within a period of a year to open up this vast field to the outside world and thus improve their own budgetary problem.

The Italian banking system clings to the charging of high interest rates (from 7 to 15%) to small business people and demands excessive collateral. This plus the enormous amount of red tape it takes to get the loan, has held small business back. The relationship of the banker to the client is one of traditional distrust. It is important to realize that the vast majority of the commercial banks are either directly or indirectly owned by the Government. There are likewise many too many banks and too many branches. An attempt is now being made by the Government through an agency which has been set up to grant agricultural loans to individual farmers for one year at 3%. It is hoped that by enlarging their scope into other fields thus to force the banks to break down their high interest rates (I doubt it).

The entire relationship of the private owner of a company or a corporation to its employees will take years to change for there is in a great majority of cases a historic distrust between owner and employee which is deep seated and goes back over the Centuries. This situation will only change as it has in our country by years of patience and understanding between the two social groups. The margin of profits in the pockets of the proprietors is way out of proportion to what he puts back into the business or divides amongst his employees.

In a Latin country with the history of poverty amongst the vast majority of the people and where the wealth is concentrated in the hands of a few large industrialists and land owners, one is faced with an ideally fertile ground for Communism. The Communist Party and its affiliated trade union the Cgil have moved in on this problem in a dynamic and intelligent way. They are well organized and well financed and concentrate on the geographic parts of Italy which have the least opportunity for a better standard of living. This sector in which they are now concentrated is in the South. It is interesting to note that in the industrial part of the North the growth of the Communist Labor Union is static but in the South, which heretofore has been unorganized by any Trades Union Group, their growth is far too rapid. An example of what has happened in the Cassa Per Il Mezzogiorno development is that all through the South the Communist machine has set up in the important villages their organizers. They have developed a technique which includes taking a room or house and developing the community activities of these villages around this community center -

dances, movies, Communist literature and even employment centers are included in their activities. The only counter influence is the local priest - if they happen to have one-- and he dares not become too involved in counter Communist propaganda, for the experience is that where the Church has openly fought the Communists they have lost their religious hold. It is true that the Free Trades Union Cisl is doing what it can to counteract this program but the organization is terribly understaffed, lacks funds for transportation, trained organizers and does not have a positive program. One therefore must divide the problems of the industrialized North which seems to have arrested the growth of Communism and concentrate on the agricultural South where Communism is on the rise and re-evaluate their economic problems and our aid to this Government.

Our vast off-shore procurement program plus the use of our counter part funds is now attempting to confine themselves to granting loans on orders to Italian companies who are truly and sincerely grappling with the building of strength in the Cisl Trades Union and where the management is sincerely trying to rid itself of the strangle hold the Cgil holds over their employees. The policy is a sound one and I think we make the mistake in not recognizing and aiding the two other smaller Free Trades Unions namely: the Uil (Socialist) and the Cisnal (Fascist). The technical assistant productivity program has been put in the hands of some individuals who are not competent to teach American business methods to the little Italian business man. I agree in the interchange of technicians and trade unionists but I do not believe it should any longer be done a Government level.

I will quote very few figures, for you have in your files the statistics as to the improvement of the standard of living of the Italian people and the improvement of production in most lines of endeavor since the outpouring of over \$3,500,000,000. Without a question of a doubt this is responsible for a large part of the improved conditions in this country. However, statistics do not reflect the mood of the people and what is really happening in this country, for with all of the economic improvements the overall problem of unemployment and Communism continues to grow. Our large participation in the loans and grants to the various Government Agencies for building public works, industries etc., and above all the land reform movement throughout the country but more especially in the South is good but too little is known by the masses of the great economic help the U.S.A. has given.

I suggest a reevaluation of our aid to the Free Trades Unions and possibly adding some new funds from the U. S.

I believe that the U. S. Government should retire from the programming activities and that Italian industry employ proper technicians from the U.S. as they need them. Likewise in the exchange of Trades Union personnel.

Above all I believe we should publicly reaffirm our moral support of the C.D. Party and the Free Trades Unions in Italy. It is the only Party that can defeat Communism. We must give the Italian Government and people a reassurance that we have faith in them and that we believe they will be able by themselves defeat Communism. We must tell them again and again that they are one of our partners in the Western Block. Today they feel we have a defeatist attitude and this plays into the hands of the Communist Party.

- 7 -

I believe the picture is not as dark as most of my co-patriots report. I believe that the Fanfanni Group including Scelta have at last decided to get to grips with their internal problems and will attack these problems with youth and vigor if given moral support by the U. S. and with the use of counterpart funds which are there. The Italian people will slowly swing back the growth of Communism and go forward on a more realistic external financial policy.

Paul Felix Warburg

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REMARKS	

Gov. Stassen is having luncheon with Mr. Warburg Thursday, Sept 30 to further discuss the report.

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